A6035-2
9/21/88

SEPTEMBER 1988

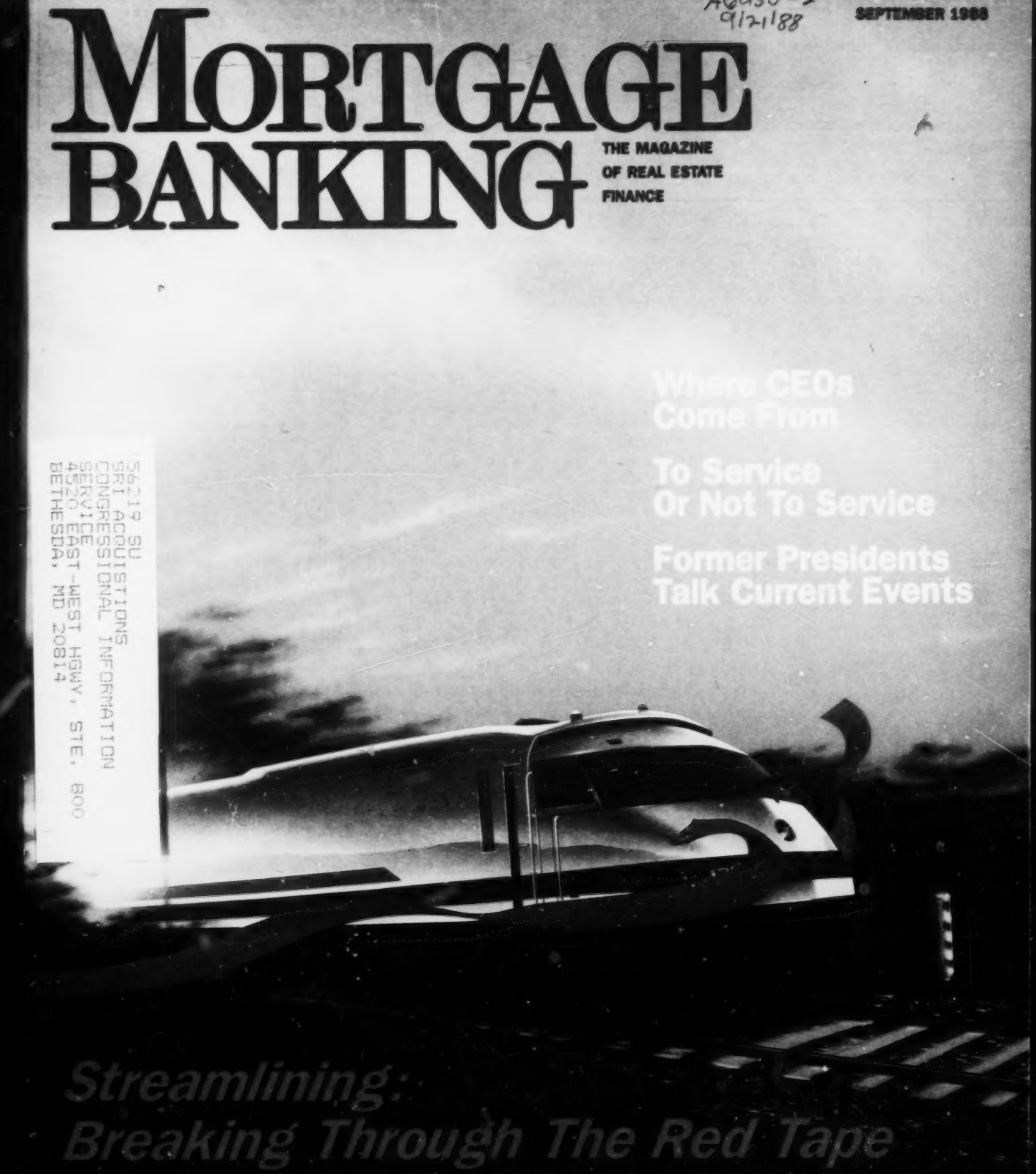
MORTGAGE BANKING

THE MAGAZINE OF REAL ESTATE FINANCE

Where CEOs Come From

To Service Or Not To Service

Former Presidents Talk Current Events



Streamlining: Breaking Through The Red Tape

56219 SU
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION SERVICE
4520 EAST-WEST HGWY, STE. 800
BETHESDA, MD 20814

CONTENTS

SEPTEMBER 1988 VOLUME 48 NUMBER 12

Cutting down on the paper work required of most mortgage transactions is what most borrowers and lenders dream about. But a 15-day mortgage is more than fantasy. Streamlining the mortgage loan process is on a fast track within the mortgage industry.

12 Streamlining: Full Speed Ahead The 60-day mortgage isn't a thing of the past yet, but industry innovators are paving the way for a faster, more efficient mortgage that benefits consumers and lenders alike. By HOWARD SCHNEIDER

Management

20 Where Do Mortgage Company CEOs Come From? New evidence points in the direction outside industry ranks. By JOHN G. FARISH AND PAUL D. McKINNIS

24 The Compleat Salesperson What does it really take to be a good salesperson? The authors suggest more than glad-handing. By JAMES L. HENNESSY JR. AND JAMES C. PRATT

Education

38 Back to School Continuing education for mortgage professionals is a prerequisite for long-term success. Courses are available that provide thoughtful and up-to-date information on all aspects of real estate finance. By LYNN POWELL

Roundtable

44 A View From the Top A lively discussion among four former MBA presidents provides insight on current mortgage issues, such as, commercial overbuilding, VA no-bids, environmental problems and declining production.

Servicing

56 Back to the Future Origination-only companies are beginning to make a resurgence within the mortgage lending landscape. Capturing the 1 percent loan origination fee is once again the key to success for many lenders. By H. JANE LEHMAN

Residential

66 Reverse Mortgages: Making Equity Work for the Elderly Reverse equity mortgages provide home-made money for many elderly homeowners who are real estate rich but cash poor. Lenders are becoming increasingly interested in this loan that generates monetary benefits for both borrower and banker. By BILL BLACK

Insurance

79 MIs: After the Losses, a Second Chance The mortgage insurance industry has suffered a financial drought during the 1980s, paying out record claims—seven times what was paid in a quarter century. What lies ahead? By WILLIAM H. LACY

Socio-economics

88 Failing Schools, Failing Real Estate Failure in the classroom equals failure in the boardroom. A weak labor force eventually cuts into profits, including the mega-industry of real estate—the price Americans pay for a lackluster educational system. By ANTHONY DOWNS

Essay

99 The Homeless One man's opinion on the state of homelessness in America. Why and what we can do about it. **And MBA provides one small solution.** By JOSEPH GARRETT

DEPARTMENTS

9 BUSINESS ALERT
101 PEOPLE
103 SECONDARY MARKET
105 ECONOMIC TRENDS
114 INDEX TO ADVERTISERS

COVER ILLUSTRATION BY THIERRY THOMPSON

Streamlining

Almost one year ago, MBA President John M. Teutsch Jr. declared in his address before the MBA Convention in Boston that there was no reason why closing a loan should take 45 to 60 days. He made streamlining one of his initiatives during his tenure and pushed it into prominence by his endorsement. Today, the lengthy mortgage origination process appears to be on the verge of finding a shortcut through the tremendous amount of paperwork that mortgages generate . . . benefiting lenders and consumers alike.

Lenders should be using a Uniform Residential Loan Application form by early next year, thanks in large part to the efforts of industry and government studies during the last 12 months. As the legendary Walt Disney once said, "If you can dream it, you can do it." See this month's cover story.

Also inside this month's issue, we discover where mortgage banking CEOs are recruited from with surprising results. A roundtable discussion featuring four former MBA presidents reveals several thought-provoking comments on a variety of key industry topics, including: production decline, international commercial investment and REO woes. And we look into reverse equity mortgages, an innovative approach to a financial dilemma for many elderly homeowners.

Jane DeMarines

Jane M. DeMarines
Senior Director of Public Affairs
and Marketing

COMING IN OCTOBER

MBA at 75: Ready for the Future

It was 1914 when the Mortgage Bankers Association of America (then called the Farm Mortgage Bankers Association) was founded. As we celebrate the 75th anniversary of MBA, we look forward to the next 75 years. Also, MBA chief economist Lyle Gramley analyzes the results of the annual cost survey of servicing. Other articles focus on rating agencies, HUD regulations and ethics in mortgage banking.

MORTGAGE BANKING
THE MAGAZINE OF REAL ESTATE FINANCE

VOLUME 48 NUMBER 12

President
JOHN M. TEUTSCH, JR., CMB

Executive Vice President
WARREN LASKO

Vice President of Communications
JACQUELINE WERTIME

Senior Director of Public Affairs and Marketing
JANE M. DEMARINES

Assistant Editor
LADONNA HALE CURZON

Art Director
SARAH CLARKE HOLLANDER

Assistant Art Director
LINA CHESAK

Art Production
LINDA M. ROLLA

Advertising Sales Managers
CARY SKINNER
TERRI CROVATO

Advertising Production
MOLLY GEREMIA

Circulation
BENNIE MURPHY

Published monthly since 1939 by the Mortgage Bankers Association of America

Business and Editorial Offices
1125 15th Street, N.W.
Washington, D.C. 20005
Editorial (202) 861-6562
Advertising (202) 861-6555
Circulation (202) 861-6992

Mortgage Banking® (ISSN 0027-1241)
Published monthly and Copyright ©1988 by the Mortgage Bankers Association of America. Opinions expressed are those of the authors or the persons quoted and not necessarily those of the Association.

Subscription rates: $33 per year. $80 for three years or $20 each for ten or more subscriptions mailed to the same addressee. In Canada, $40 per year, foreign $40 per year. Individual copies, $2.75 each.

Second class postage paid at Washington, D.C. and additional mailing offices. Subscription orders should be sent to P.O. Box 37236, Washington, D.C. 20013. Letters, manuscripts, change of address and all other correspondence should be sent to *Mortgage Banking*, 1125 15th Street N.W. Washington, D.C. 20005. Six to eight weeks are required for a change of address. Along with a new address, send last magazine label.

HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS						PERMITS 17,000 ISSUING PLACES					
	Actual			Seasonally Adjusted Annual Rates			Actual			Seasonally Adjusted Annual Rates		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1988												
JAN	78	59	19	1,382	1,069	313	70	54	16	1,248	988	260
FEB	90	68	22	1,519	1,161	358	93	68	25	1,429	1,078	351
MAR	129	105	24	1,529	1,229	300	140	107	33	1,476	1,110	366
APR	154	112	42	1,584	1,151	433	138	101	37	1,449	1,035	414
MAY	140	109	31	1,384	1,057	327	138	106	32	1,436	1,058	378
JUN$_p$	**149**	**120**	**29**	**1,454**	**1,158**	**296**	**153**	**114**	**39**	**1,489**	**1,081**	**408**
1987 TOTAL	1,620	1,211	409				1,535	1,114	421			
1986 TOTAL	1,805	1,263	542				1,770	1,186	584			
6 MONTHS												
1988	739	572	167				732	549	183			
1987	829	624	205				807	594	213			
1986	932	646	286				908	607	301			
1985	855	582	273				843	540	303			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS								PERMITS 17,000 ISSUING PLACES							
	Actual				Seasonally Adjusted Annual Rates				Actual				Seasonally Adjusted Annual Rates			
	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1988																
JAN	14	8	32	24	306	226	463	387	12	8	29	21	264	230	420	334
FEB	12	11	42	26	307	259	593	360	13	11	43	26	258	262	553	356
MAR	22	18	53	36	290	262	572	405	26	24	54	37	306	276	525	369
APR	25	32	59	37	265	345	595	379	25	28	48	38	265	272	512	400
MAY	20	31	54	35	205	267	556	356	23	29	49	36	236	274	538	388
JUN$_p$	**26**	**31**	**54**	**39**	**241**	**257**	**572**	**384**	**26**	**30**	**57**	**41**	**242**	**281**	**575**	**391**
1987 TOTAL	269	298	634	420					272	282	575	406				
1986 TOTAL	294	296	733	483					283	290	687	510				
6 MONTHS																
1988	119	130	293	196					123	131	280	198				
1987	129	149	328	223					137	144	310	216				
1986	133	137	406	255					133	136	373	260				
1985	110	109	400	236					122	105	378	238				

HOUSING ACTIVITY (Cont'd.)

YEAR AND MONTH	HOUSING SALES (Units in thousands) EXISTING HOUSES[1] Sold	NEW HOMES Sold	NEW HOMES Available For Sale	NEW HOMES Months Supply at Current Rate	VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in billions) Seasonally Adjusted Annual Rate Total	1 Unit	2+ Units	Non-res.	CONSTRUCTION STATUS (Units in thousands) Seasonally Adjusted Annual Rate Under Construction Total	1-4 Units	5+ Units	Completions Total	1-4 Units	5+ Units
1988														
JAN	191	43	366	7.7	231.9	117.0	23.8	91.1	1,008	654	354	110	82	28
FEB	220	55	363	6.8	228.5	115.4	22.6	90.5	983	636	347	100	73	27
MAR	303	68	366	6.8	232.9	117.6	21.6	93.7	999	658	341	121	86	35
APR	322	68	363	6.6	232.9	117.4	21.0	94.5	1,001	662	339	124	85	38
MAY	344	64	368	6.7	234.4	116.1	21.5	96.8	990	652	338	116	88	28
JUN$_p$	**376**	**66**	**370**	**6.2**	**236.2**	**115.3**	**22.0**	**98.9**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
1987 TOTAL	3,520	671										1,669	1,194	475
1986 TOTAL	3,565	750										1,756	1,206	550
6 MONTHS														
1988	1,756	364										n.a.	n.a.	n.a.
1987	3,530	376										796	551	245
1986	3,566	425										800	541	259
1985	3,217	360										788	531	257

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED
By Type of Institution and By Unit Type
(Dollars in millions)

YEAR AND MONTH	TOTAL Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	1-4 UNITS Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
OCT	$ 49,841	$ 7,387	$ 16,719	$ 22,151	$ 3,584	$ 31,311	$ 6,819	$ 13,647	$ 10,629	$ 216
NOV	43,840	5,678	13,708	20,928	3,526	26,482	5,450	11,378	9,432	222
DEC	52,632	6,794	16,617	24,833	4,388	29,464	6,582	12,238	10,530	114
1988										
JAN	36,953	5,919	10,683	18,765	1,586	21,139	5,742	8,327	7,038	32
FEB	35,487	5,886	10,924	17,021	1,656	20,634	5,440	8,507	6,626	61
MAR$_p$	**43,154**	**6,878**	**14,394**	**19,386**	**2,496**	**26,362**	**6,638**	**11,575**	**7,964**	**185**
1987 TOTAL	648,148	115,373	210,358	286,789	35,628	445,434	110,093	173,822	158,257	3,262
1986 TOTAL	633,959	142,884	218,118	235,514	37,443	450,232	131,628	176,073	138,717	3,814
3 MONTHS										
1988	115,635	18,683	36,001	55,173	5,778	68,136	17,820	28,409	21,649	258
1987	149,984	34,577	44,129	65,169	6,109	108,463	32,679	36,335	38,460	989
1986	87,744	20,229	34,180	27,609	5,726	62,093	18,628	26,398	16,493	574
1985	66,776	12,675	26,703	23,026	4,372	43,053	11,648	19,227	11,985	193

LENDER ACTIVITY (Cont'd.)

LONG-TERM MORTGAGE LOANS CLOSED (Cont'd.)

(Dollars in millions)

YEAR AND MONTH	5+ UNITS					NONRESIDENTIAL				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
OCT	$ 3,106	$ 383	$ 1,495	$ 862	$ 366	$ 15,277	$ 185	$ 1,577	$ 10,513	$ 3,002
NOV	2,542	151	1,022	983	386	14,609	77	1,308	10,306	2,918
DEC	3,371	97	1,986	969	319	19,797	115	2,393	13,334	3,955
1988										
JAN	2,122	160	1,171	710	81	13,692	17	1,185	11,017	1,473
FEB	2,020	385	990	421	224	12,833	61	1,427	9,974	1,371
MAR$_p$	**2,481**	**157**	**1,349**	**658**	**317**	**14,311**	**83**	**1,470**	**10,744**	**2,014**
1987 TOTAL	36,735	2,409	17,719	12,887	3,720	165,979	2,871	18,817	115,645	28,646
1986 TOTAL	40,449	7,172	19,877	9,677	3,723	143,278	4,084	22,168	87,120	29,906
3 MONTHS										
1988	6,663	702	3,510	1,789	662	40,836	161	4,082	31,735	4,858
1987	8,315	822	3,916	2,977	600	33,206	1,076	3,878	23,732	4,520
1986	6,340	709	3,595	1,420	616	19,311	892	4,187	9,696	4,536
1985	5,079	584	2,776	1,307	412	18,644	443	4,700	9,734	3,767

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

YEAR AND MONTH	ISSUED DURING MONTH					OUTSTANDING				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
OCT	$ 39,771	$ 10,964	$ 18,768	$ 7,356	$ 2,683	$126,479	$13,150	$50,143	$47,011	$16,175
NOV	29,450	4,604	15,454	6,636	2,756	126,075	12,484	47,784	49,673	16,134
DEC	26,649	2,907	15,561	6,170	2,011	111,370	6,711	44,927	46,613	13,119
1988										
JAN	28,343	7,271	13,929	5,618	1,525	106,598	8,111	41,990	43,325	13,172
FEB	27,456	4,490	13,525	6,598	2,843	110,839	9,147	43,049	44,404	14,239
MAR$_p$	**37,397**	**3,969**	**18,742**	**10,858**	**3,828**	**116,459**	**7,453**	**45,589**	**48,532**	**14,885**
1987 TOTAL	475,252	96,534	235,457	110,306	32,955					
1986 TOTAL	532,999	128,480	231,915	133,504	39,100					
3 MONTHS										
1988	93,196	15,730	46,196	23,074	8,196					
1987	117,394	30,063	53,818	26,467	7,046					
1986	104,185	30,315	46,607	17,825	9,438					
1985	66,220	9,966	33,988	14,905	7,361					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA[3]	VA	Private	Total		FHA		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1988												
JAN	110	58	14	38	119	8,246	74	4,453	16	1,143	29	2,650
FEB	139	84	17	38	103	7,271	56	3,351	20	1,503	27	2,417
MAR	175	109	15	51	98	7,036	49	2,927	19	1,381	30	2,728
APR	165	93	14	58	88	6,591	42	2,508	14	1,039	32	3,044
MAY	170	91	18	61	113	8,222	59	3,545	16	1,164	38	3,513
JUN$_p$	**168**	**85**	**20**	**63**	**110**	**8,466**	**49**	**3,006**	**16**	**1,209**	**45**	**4,251**
1987 TOTAL	2,341	1,211	409	721	2,278	159,373	1,315	81,553	452	33,315	511	44,505
1986 TOTAL	3,279	1,907	450	922	1,853	127,758	921	56,901	346	24,719	586	46,138
6 MONTHS												
1988	927	520	98	309	632	45,832	330	19,790	101	7,439	201	18,603
1987	1,430	785	253	392	1,266	87,724	745	46,234	266	19,452	255	22,038
1986	1,025	401	200	424	759	51,828	375	23,074	135	9,607	249	19,147
1985	820	200	102	518	613	39,502	184	10,574	78	5,189	351	23,739

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA Portfolio Comm.	FNMA Portfolio Purc.	FNMA Mortgage-Backed Securities Outstanding	FNMA Mortgage-Backed Securities Issued	FHLMC* Comm. to Sell	FHLMC* Comm. to Buy	FHLMC* Mtg. Purc.	FHLMC* Mtg. Sold	GNMA Pass-Through Securities Applications	GNMA Pass-Through Securities Issued
1988										
JAN	$ 2,254	$ 1,267	$140,522	$ 1,683	$ 2,096	$ 3,867	$ 2,168	$ 1,832	$ 1,651	$ 4,348
FEB	2,516	2,629	142,797	3,190	1,869	4,911	3,293	2,414	3,694	3,142
MAR	3,823	2,776	145,242	3,352	2,973	4,262	2,932	2,312	3,458	3,106
APR	2,555	2,409	149,569	5,444	2,968	6,437	2,772	2,266	4,820	3,315
MAY	2,142	2,138	152,826	4,600	3,552	5,159	2,876	2,325	6,288	4,168
JUN$_p$	**2,179**	**2,372**	**157,438**	**6,220**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
1987 TOTAL	25,415	20,531	—	63,230	68,210	76,615	76,840	75,018	116,611	96,983
1986 TOTAL	32,987	30,826	—	60,566	106,563	136,179	103,474	102,443	152,911	98,169
6 MONTHS										
1988	15,469	13,591	—	24,489	n.a.	n.a.	n.a.	n.a.	24,875	23,649
1987	11,344	9,285	—	36,850	47,320	54,751	50,942	50,260	75,820	58,760
1986	16,171	10,366	—	23,359	45,419	49,296	39,279	37,578	58,600	36,313
1985	10,419	10,880	—	8,199	22,120	24,353	18,574	17,018	24,139	17,888

*In December, master commitment conversions exceeded new master & regular commitments taken.

INTEREST RATES AND YIELDS

1- to 4-UNIT MORTGAGES

YEAR AND MONTH	FHA OPINION SURVEY FHA New[4]	FHA OPINION SURVEY CONVENTIONAL New	FHA OPINION SURVEY CONVENTIONAL Existing	FHLBB SURVEY CONVENTIONAL New	FHLBB SURVEY CONVENTIONAL Existing	FNMA 1 Yr. ARM (1%/Yr.)	FNMA FRM Conv.
1988							
JAN	10.17%	10.09%	10.10%	9.10%	9.24%	8.93%	10.010%
FEB	9.86	9.80	9.81	9.12	9.16	8.62	9.642
MAR	10.28	9.99	10.01	9.15	9.14	8.60	9.737
APR	10.46	10.19	10.19	9.13	9.21	8.86	10.035
MAY	10.84	10.48	10.49	8.95	9.22	9.24	10.283
JUN	10.65	10.35	10.37	9.07	9.31	9.45	10.223
JUL$_p$	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**9.67**	**10.240**

CURRENT SECONDARY MARKET YIELDS

YEAR AND MONTH	GNMA[6]	FNMA[6]	FHLMC[6]
1988			
JAN	9.90%	9.78%	9.68%
FEB	9.29	9.27	9.23
MAR	9.39	9.33	9.29
APR	9.72	9.62	9.59
MAY	10.01	10.56	10.25
JUN	9.97	10.10	10.06
JUL	**9.96**	**10.35**	**10.30**

SELECTED SECURITIES

YEAR AND MONTH	A-Rated[7] Utility	U.S. Government 10-yr.	U.S. Government 26-wk.	Prime Comm. Paper 90-119 Days
1988				
JAN	10.05%	8.67%	6.25%	6.87%
FEB	9.75	8.21	5.93	6.58
MAR	9.91	8.37	5.91	6.62
APR	10.23	8.72	6.21	6.86
MAY	10.61	9.09	6.53	7.19
JUN	10.41	8.92	6.76	7.49
JUL	**10.40**	**9.06**	**6.99**	**7.82**

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1987				
1988				
JAN	12	123	111	101
FEB	11	108	106	102
MAR	37	102	96	92
APR	23	100	90	87
MAY	23	92	147	116
JUN	24	105	118	114
JUN	**n.a.**	**90**	**129**	**124**

NA—Not available. p—Preliminary.

[1] From the National Association of Realtors "Existing Home Sales" series.

[2] Mutual Savings Banks and Commercial Banks.

[3] FHA applications received includes the Direct Endorsement Program starting in 1984.

[4] Secondary market gross yields.

[5] Federal Home Loan Mortgage Corp. Existing Construction only.

[6] Securities for 0 to 30 day delivery.

[7] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds.

[8] Year-to-date seasonally adjusted series not calculated.

[9] 1985 data on mortgage bankers obtained from the HUD Survey of Mortgage Lending Activity.